SPCG PLC

No. 65/2016 7 July 2016

Company Rating: A-

Issue Ratings:

Guaranteed	A-
Senior unsecured	A-

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
04/06/15	A-	Stable
02/05/14	BBB+	Stable

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Rating Rationale

TRIS Rating affirms the company rating of SPCG PLC (SPCG) and its debentures ratings at "A-". The ratings continue to reflect SPCG's stable cash flows from its investment portfolio of solar power projects, its management experience as a pioneer in the solar power business, satisfactory performances of power plants, and an encouraging outlook of the country's renewable energy. However, the ratings are constrained by SPCG's highly-leveraged balance sheet.

SPCG was founded in 1996 as Solar Power Co., Ltd. (SPC) to develop solar power projects in Thailand. In 2011, the company was listed on the Market for Alternative Investment (mai), through a reverse listing process, and was renamed SPCG. In 2012, SPCG moved its listing to the Stock Exchange of Thailand (SET). As of March 2016, the Khunchornyakong family held a 49% interest in SPCG. SPCG is a holding company, mainly investing in 36 solar farms with a combined contracted capacity of 205.92 megawatts (MW). In 2015, the 36 solar farms contributed about 90.6% of SPCG's revenue, while 5.1% of the company's revenue came from a metal sheet roofing factory, and the remaining 4.3% was from solar rooftops and others.

The ratings reflect the stable cash flows SPCG earns from its investment in solar power projects. SPCG, through its operating subsidiaries, owns 36 operational solar power projects, all of which have long-term power purchase agreements (PPAs) with the Provincial Electricity Authority (PEA) and receive adder tariff of Bt8 per kilowatt hour (kWh) for 10 years. The predictable cash flows from the solar power projects are hence partly substantiated by the contractually committed tariff and the minimal payment risk of the buyer. The company's solar farms are located in nine provinces in the Northeastern region of Thailand and in Lopburi province. The Northeastern region is most best-suited for solar power production, based on the statistical solar irradiation in the area. The ratings recognize SPCG's management experience in the solar power business. SPCG is the first developer of commercial-scale solar power plants in the country.

The ratings also take into account satisfactory performances of SPCG's power plants, largely backed by technologically-proven and certified equipment, as well as operating efficiency. SPCG's power plants are well-equipped as the company sources major equipment, i.e., PV modules and inverters, from reputable suppliers, namely Kyocera Corporation (Kyocera) and SMA Solar Technology AG (SMA). Both suppliers also provide SPCG with multi-year warranty of product efficiency.

SPCG's first farm has already passed six years of operation, while its latest farm started up in June 2014. SPCG's power output increased by 16% to 396 Gigawatt hour (GWh) in 2015 from 340 GWh in 2014 since it was the first full year of operation for all the 36 solar farms. SPCG's average plant performance ratio was 78.1% in 2015. The actual power generation outpaced the initial estimation based on a 50% probability (P50) of energy production. For the first three months of 2016, SPCG generated 102 GWh of electricity, 3% higher than the same period of 2015. With the existing capacity, all solar power plants are expected to generate revenue at about Bt4-Bt4.5 billion per annum.

The ratings incorporate the encouraging prospects of renewable sources of energy in Thailand, as chiefly evidenced by the government's concrete long-term plan to develop alternative energy sources, the support given to producers of solar power, and the steady growth in energy consumption.

On the contrary, the ratings are constrained by SPCG's highly-leveraged balance sheet. The company's total debt to capitalization ratio remained high at 63.4% at the end of March 2016 although debts continued to decline to Bt15.9 billion. The company's high leverage is partly alleviated by the stable and predictable cash flows produced by each solar project. Solar farms have a high operating margin (operating income before depreciation and amortization as percentage of sales) because of the adder tariff and low operating expenses. All SPCG's solar farms have a favorable electricity tariff of approximately Bt11 per kWh with an earning before interest, tax, depreciation, and amortization (EBITDA) margin of approximately 85%.

TRIS Rating's base-case scenario assumes the company's energy generation will match the P90 estimate and the performance ratio will be 77.7%. The electricity produced in the base-case scenario is expected to range from 340-350 GWh per annum. SPCG's EBITDA is expected to reach Bt3.2-Bt3.3 billion per year during 2016-2020. From 2021 onwards, the EBITDA is expected to gradually decline as the adder scheme starts to expire. The debt to capitalization ratio is expected to improve to about 50% by the end of 2017. SPCG has looked for growth by developing solar farm projects overseas in a move that will enlarge capacity and diversify revenue sources. The company is also setting to ramp up its sales of solar rooftop modules in the domestic market. SPCG is expected to manage its capital structure and liquidity prudently throughout the course of its expansions.

Rating Outlook

The "stable" outlook embeds the expectation that SPCG will be capable of maintaining its satisfactory plant performance ratio above 75% over the next three years, with an EBITDA of at least Bt3.2-Bt3.3 billion per year.

A rating upgrade could occur if SPCG could enhance its EBITDA on the back of sustained revenue growth, or earn solid returns from its investments. On the contrary, downward rating pressure could develop if solar plant performances drop drastically, which can considerably weaken SPCG's cash flow. A negative rating pressure could also come from SPCG's excessive debt-funded expansions.

SPCG PLC (SPCG)

Company Rating:	A-
Issue Ratings:	
SPCG196A: Bt4,000 million guaranteed and amortizing debentures due within 2019	A-
SPCG16DA: Bt1,800 million senior unsecured debentures due 2016	A-
SPCG17DA: Bt1,800 million senior unsecured debentures due 2017	A-
SPCG18DA: Bt1,800 million senior unsecured debentures due 2018	A-
SPCG19DA: Bt1,800 million senior unsecured debentures due 2019	A-
SPCG20DA: Bt1,700 million senior unsecured debentures due 2020	A-
SPCG21DA: Bt1,700 million senior unsecured debentures due 2021	A-
SPCG22DA: Bt1,250 million senior unsecured debentures due 2022	A-
SPCG23DA: Bt650 million senior unsecured debentures due 2023	A-
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

		-----------------------Year Ended 31 December -------------------				
	Jan-Mar 2016	2015	2014	2013	2012	2011
Revenue	1,222	5,000	4,357	2,473	1,214	579
Gross interest expense	194	898	979	605	230	103
Net income from operations	610	2,196	1,632	496	7	7
Funds from operations (FFO)	952	3,018	2,514	1,023	279	207
Earnings before interest, tax, depreciation, and amortization (EBITDA)	1,044	3,940	3,407	1,658	555	243
Capital expenditures	5	202	1,358	8,339	6,055	1,773
Total assets	25,569	24,736	25,571	22,501	13,052	5,217
Total debts	15,893	15,794	18,014	16,646	8,171	2,970
Shareholders' equity	9,170	8,470	7,100	3,513	2,589	1,160
Operating income before depreciation and amortization as % of sales	84.8	77.7	77.5	65.5	44.7	41.2
Pretax return on permanent capital (%)	13.2**	13.4	12.5	8.5	5.3	6.5
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	5.4	4.4	3.5	2.7	2.4	2.4
FFO/total debt (%)	20.4**	19.1	14.0	6.1	3.4	7.0
Total debt/capitalization (%)	63.4	65.1	71.7	82.6	75.9	71.9

* *Consolidated financial statements*

** *Annualized with trailing 12 months*

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